

POLICIES AND PROCEDURES OF THE HEALTH CARE
SECURITY TRUST BOARD OF TRUSTEES
WITH RESPECT TO THE STATE RETIREE BENEFITS TRUST FUND
FEBRUARY 2012

ARTICLE 1

DEFINITIONS

Authority shall mean any political subdivision, agency or authority of the Commonwealth, other than a Municipality, which elects to participate in the SRBT Fund pursuant to Section 24(d).

HCST Board shall mean the Board of Trustees of the Health Care Security Trust established pursuant to M.G.L. Chapter 29, Section 4.

M.G.L. shall mean the Massachusetts General Laws.

Municipal OPEB Trust Fund shall mean the Other Post-Employment Benefits Liability Trust Fund established by a Municipality pursuant to Section 20.

Municipality shall mean a city, town, district, county, or municipal lighting plant that has accepted Section 20.

PRIM Board shall mean the Pension Reserves Investment Management Board, established pursuant to M.G.L. Chapter 32, Section 23(2A) to administer the PRIT Fund.

PRIT Fund shall mean the Pension Reserves Investment Trust Fund, established pursuant to M.G.L. Chapter 32, Section 22(8).

Participant shall mean a Municipality that has established a Municipal OPEB Trust Fund, has designated the HCST Board as the custodian of the Municipal OPEB Trust Fund pursuant to Section 20, and such designation has been accepted by the HCST Board, or an Authority that has been authorized to participate in the SRBT Fund by the HCST Board pursuant to Section 24(d).

SRBT Fund shall mean the state Retiree Benefits Trust Fund established pursuant to Chapter 32A, Section 24, and the monies, amounts and investments held in such Fund.

Section 20 shall mean M.G.L. Chapter 32B, Section 20, as amended by Chapter 68, Section 57 of the Acts of 2011.

Section 24(d) shall mean M.G.L. Chapter 32A, Section 24(d), as amended by Chapter 68, Section 50 of the Acts of 2011.

State System shall mean the state employees' retirement system for health care and other non-pension benefits.

ARTICLE 2

AUTHORITY OF THE HCST BOARD

Section 2.1 Investment of SRBT Fund. Pursuant to M.G.L. Chapter 32A, Section 24(a), the HCST Board is the trustee of the SRBT Fund and is to administer the SRBT Fund for the purpose of depositing, investing and disbursing amounts to meet liabilities of the State System for health care and other non-pension benefits for retired state employees. In accordance with M.G.L. Chapter 29D, Section 4(i), the HCST Board has voted to invest the SRBT Fund in the PRIT Fund. By virtue of that certain Amended and Restated Investment Services Agreement, dated as of October 1, 2011, by and between the HCST Board and the PRIM Board, the assets in the SRBT Fund are invested in the PRIT Fund General Allocation Account on behalf of the SRBT Fund as a “Purchasing System” under the terms of the PRIM Board Operating Trust Agreement, dated as of September 22, 1998 (the “PRIM Board Operating Agreement”).

Section 2.2 Custodian for Municipalities. The HCST Board is authorized by Section 20 to be the custodian of Municipal OPEB Trust Funds if it chooses to accept designation by a Municipality. By virtue of Section 20, the HCST Board may approve the investment of monies in a Municipal OPEB Trust Fund in the SRBT Fund.

Section 2.3. Election by Authorities to Participate in the SRBT Fund. Pursuant to Section 24(d), the HCST Board may authorize any Authority to participate in the SRBT Fund using procedures and criteria to be adopted by the HCST Board.

Section 2.4 Acceptance of Designation; Authorization. The HCST Board will accept designation by a Municipality as custodian of a Municipal OPEB Trust Fund and will authorize participation in the SRBT Fund by an Authority on the following conditions:

- (a) The Municipality has taken all necessary votes and actions either pursuant to Section 20 or pursuant to its special legislation, to establish a Municipal OPEB Trust Fund, appropriate monies to be credited to the Municipal OPEB Trust Fund and, if applicable, to designate the HCST Board as custodian;
- (b) The Municipality understands and agrees that the Municipal OPEB Trust Fund will participate in the SRBT Fund and, as a participant in the SRBT Fund, will be invested in the same investment vehicles as the SRBT Fund and commingled with funds of the State System and other Participants;
- (c) The Authority shall have taken all votes and actions required by its enabling legislation and governing documents in order to participate in the SRBT Fund and to appropriate monies to be invested in the SRBT Fund.
- (d) The Municipality or the Authority understands and agrees that the HCST Board has determined to invest the SRBT Fund in the PRIT Fund General Allocation Account;
- (e) The Municipality or the Authority understands and agrees that the PRIM Board is charged with supervision and management of the PRIT Fund General Allocation

Account, and pursuant to an Administrative Services Agreement, dated as of October 1, 2011, by and between the HCST Board and the PRIM Board, provides or causes its custodian, The Bank of New York Mellon Trust Company, N.A., to provide all valuation, reporting and other recordkeeping services to the SRBT Fund and the Participants;

- (f) The Municipality or the Authority enters into an agreement regarding the above conditions with the HCST Board satisfactory in all respects to the HCST Board;
- (g) The Municipality or the Authority has presented evidence to the HCST Board of its plan for funding its Other Post-Employment Benefits liabilities;

ARTICLE 3

PRIT FUND OPERATIONAL MATTERS

Section 3.1 Separate Investment Funds. The SRBT Fund consists of two investment funds, known as the “Capital Fund” and the “Cash Fund.” Each of these Funds is separately held, managed, administered, valued, invested, reinvested, distributed, accounted for and otherwise dealt with by the PRIM Board. The Capital Fund portion of the SRBT Fund is invested in the General Allocation Account of the PRIT Fund. Portions of the SRBT Fund are invested in the Cash Fund on a temporary basis, in order to provide liquidity. References to the “SRBT Fund” shall be deemed to refer to both the Capital Fund and the Cash Fund, and each of them.

Section 3.2 Investments of the Capital Fund. The HCST Board shall direct the PRIM Board to cause the Capital Fund portion of the SRBT Fund assets to be invested and reinvested in accordance with the standards set forth in these Policies and Procedures and as required by applicable law. The HCST Board has, as of the date hereof, determined to invest the Capital Fund of the SRBT Fund in the General Allocation Account of the PRIT Fund.

Section 3.3 Investments of the Cash Fund. The HCST Board shall direct the PRIM Board to cause the cash deposits on behalf of the State System and Participants to be received, maintained and invested in the Cash Fund in such a way as to meet any liquidity requirements of the State System and the Participants, of which the PRIM Board has notice. To the extent not needed for current or future liquidity requirements, the HCST Board may direct the PRIM Board to use funds credited to the account of the SRBT Fund, on behalf of the State System or any Participant to purchase (on the first (1st) business day of any calendar month) Units of participation in the General Allocation Account of the PRIT Fund for the account of the SRBT Fund.

Section 3.4 Separate Accounts of Capital Fund. The PRIM Board has divided the beneficial interest in the Capital Fund of the PRIT Fund into separate accounts (“Accounts”) in accordance with Article 3 of the PRIM Board Operating Agreement. Each account is a separate component of the assets of the Capital Fund and the holders of Units of participation representing the beneficial interest in the assets of an Account are considered “Unit Holders” of such Account. The SRBT Fund is a Unit Holder of the General Allocation Account. The PRIM Board holds the Account and all deposits received for the acquisition of Units in the General Allocation Account and all the assets in which such deposits are invested or reinvested and all interest, dividends,

income, earnings, profits and gains therefrom and proceeds thereof are held by the PRIM Board in trust for the benefit of the SRBT Fund as a holder of Units of participation in the General Allocation Account. The SRBT Fund does not have any claim to the assets of any Account in which it is not a Unit Holder. The assets of a particular Account are charged with the liabilities and expenses attributable to the Account.

ARTICLE 4

PARTICIPATION IN AND WITHDRAWAL FROM THE SRBT FUND

Section 4.1 Acceptance of Deposits. The participation of the State System and any Participant in the SRBT Fund shall be subject to the provisions of policies and procedures to be adopted by the HCST Board from time to time. All deposits accepted from the State System or any such Participant or otherwise, together with the income therefrom, shall be held, managed and administered pursuant to these policies and procedures for the sole purpose of meeting the liabilities of the State System and the Participants for the health care and other non-pension benefits of their retirees.

Section 4.2 Conditions of Participation. The HCST Board shall direct the PRIM Board to accept deposits on behalf of the State System and from Participants into the Cash Fund at any time and into the General Allocation Account on the first (1st) business day of the next calendar month or as the HCST Board and PRIM Board may otherwise determine.

Section 4.3 Allocation of Deposits. Deposits shall be allocated by the PRIM Board to the General Allocation Account and credited to the SRBT Fund.

Section 4.4 Participation Based on Current Valuation. Each purchase, redemption or withdrawal shall be made upon the basis of the value of the PRIT Fund and its Units of participation, determined as of a Valuation Date in the manner set forth in PRIM Board Operating Agreement. Units of participation shall be purchased by the HCST Board, on behalf of the State System, and by Participants upon deposit in the SRBT Fund in the PRIT Fund and shall be redeemed from the HCST Board or such Participants upon withdrawal from the SRBT Fund in the PRIT Fund.

Section 4.5 Payments upon Issue and Redemption of Units of Participation.

- (a) On the payment on behalf of the State System or by a Participant in cash into the SRBT Fund of an amount equal to the total value of the Units to be issued, the HCST Board shall cause the PRIM Board to issue Units of participation as of the first day of the following calendar month.
- (b) Upon a partial redemption of Units of participation by the HCST Board, on behalf of the State System, or by a Participant, the PRIM Board shall pay to the HCST Board or such Participant, as the case may be, in cash, an amount equal to the total value of the Units redeemed in accordance with Section 4.6 below.

- (c) Upon a total redemption of Units of participation by the HCST Board, on behalf of the State System, or by a Participant, the PRIM Board shall pay to the HCST Board or such Participant, as the case may be, in cash, an amount equal to the total value of the Units redeemed in accordance with Section 4.6, below.

Section 4.6 Procedure for Redemptions and Withdrawals. The HCST Board or a Participant may, from time to time, request the PRIM Board to redeem its Units of participation, either partially or fully, by giving thirty (30) days' prior written notice to the PRIM Board, with a copy to the HCST Board. The PRIM Board shall approve or deny such request within thirty (30) days of receipt of such notice. If such request is approved, in the case of a partial redemption, distribution of the amount requested shall be made on the first (1st) business day of the calendar month following approval by the PRIM Board. In the case of a total redemption, upon approval, distribution of an amount equal to approximately 70% of the total value of the Units will be made by the PRIM Board on the first (1st) business day of the calendar month following approval by the PRIM Board. The balance will be distributed approximately three weeks after the last day of the then current month. The PRIM Board may deny such request only if there is insufficient liquidity in the SRBT Fund to meet such request and projected reasonable liquidity requirements.

ARTICLE 5

UNITS OF PARTICIPATION; VALUATION OF UNITS

Section 5.1 Division Into Units. The beneficial interest of each Participant in the Capital and Cash Funds or the General Allocation Account shall be represented by Units. Each Unit of the General Allocation Account shall be of equal value to every other Unit of such Account, each Unit of the Cash Fund shall be of equal value to every other Unit of the Cash Fund, and each Unit of each such Fund or Account shall be without priority or preference one over the other. The PRIM Board shall evidence ownership of Units in the PRIT Fund by keeping books in which shall be clearly recorded the number of Units of the PRIT Fund standing to the credit of the SRBT Fund and each Participant therein. The PRIM Board shall not issue any certificates of such Units. The PRIM Board may from time to time divide or combine Units of the Capital Fund or Cash Fund or any Account into a greater or lesser number, provided that the proportionate interest of each Purchasing System in each such Fund or Account is not thereby changed. Fractional shares of Units may be credited to the SRBT Fund and Participant accounts.

Section 5.2 Determination of Unit Values. On each prescribed Valuation Date (or each additional Valuation Date designated by the PRIM Board), the PRIM Board shall determine, or cause to be determined, the value of the General Allocation Account, and the Units of such Account, in the manner set forth in the PRIM Board's Operating Trust Agreement.

Section 5.3 Allocation to SRBT Fund. All of the assets contained in the SRBT Fund immediately prior to the first deposit into the SRBT Fund by a Participant that is not the State System, shall be allocated to the account of the State System.

Section 5.4 Management and Ownership of Assets. Neither the HCST Board, on behalf of the State System, nor any Participant shall be deemed to have a severable ownership interest in any individual asset of the SRBT Fund or PRIT Fund, but the SRBT Fund shall have an undivided interest in the PRIT Fund General Allocation Account or other Account to which its deposits have been allocated and shall share with the others in the income, profits and losses thereof as provided herein.

ARTICLE 6

VALUATION OF UNITS

Section 6.1 Valuation of Assets of the Capital Fund. The valuation of the assets of the SRBT Fund in the General Allocation Account shall be done by the PRIM Board utilizing the methods set forth in the PRIM Board Operating Agreement.

Section 6.2 Valuation of Assets of the Cash Fund. The valuation of the assets of the SRBT Fund's Cash Fund, and each Participant's share thereof, shall be done by the PRIM Board utilizing the methods set forth in the PRIM Board Operating Agreement.

ARTICLE 7

ADMINISTRATION

Section 7.1 Statements and Accounts. The PRIM Board shall cause statements of assets and transactions to be prepared and distributed to the HCST Board and to each Participant in the

SRBT Fund. Annually, within ninety (90) days after the close of the SRBT Fund's fiscal year, the HCST Board shall cause the PRIM Board to furnish a written account of the operation of the SRBT Fund for the preceding fiscal year to the HCST Board and each Participant. Any Participant to which an account is furnished may approve such account by an instrument in writing delivered to the HCST Board. If objections to specific items in such account are filed with the HCST Board within sixty (60) days after the account has been furnished and the HCST Board believes such objections to be valid, the HCST Board will cause the PRIM Board to adjust the account in such manner as it deems equitable under the circumstances. The HCST Board and each Participant to which the PRIM Board furnishes an account shall be notified by the PRIM Board of any adjustments so made if:

- (a) all Participants to which such account is furnished approve such account, or
- (b) no objections to specific items in such account are filed by any Participant with the HCST Board within sixty (60) days after the account has been furnished, or
- (c) objections to specified items in such account are filed with the HCST Board within sixty (60) days after the account has been furnished, and the PRIM Board gives no notice of any adjustment to the account within one hundred and fifty (150) days after such account has been furnished,

then, and in any of said events, the account of the PRIM Board, with respect to all matters contained therein (as originally furnished if no adjustment was made, or as adjusted if an adjustment was made), shall be deemed to have been approved by all Participants.

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